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December 28, 2010

Employer Code: 1808
Job Number: P09-065

Del Puerto Water District
Anthea Hansen, Assistant Manager/Financial Accountant
P. O. Box 1596
Patterson, CA 95363

Dear Ms. Hansen:

Enclosed is our final report on the results of the public agency review completed for the Del Puerto Water District. Your District's written response indicates agreement with the issues noted in the report. The written response is included as an appendix to the report. As part of our resolution process, we have referred the issues identified in the report to the appropriate divisions at CalPERS. Please work with these divisions to address the recommendations specified in our report. It was our pleasure to work with your agency and we appreciate the time and assistance of you and your staff during this review.

Sincerely,

Original Signed by Margaret Junker

Margaret Junker, CPA, CIA, CIDA
Chief, Office of Audit Services

Enclosure

cc: Finance Committee Members, CalPERS
Peter Mixon, General Counsel, CalPERS
Lori McGartland, Chief, ERSD, CalPERS
Mary Lynn Fisher, Chief, BNSD, CalPERS
Holly Fong, Chief, EMHS, CalPERS
Honorable Board Directors, Del Puerto Water District

Del Puerto Water District



Public Agency Review



Office of Audit Services

**Employer Code: 1808
Job Number: P09-065**

December 2010

DEL PUERTO WATER DISTRICT

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RESULTS IN BRIEF

We reviewed the Del Puerto Water District's (District) enrolled individuals, health and retirement contributions, member earnings and required health, retirement and Automated Communications Exchange System (ACES) documentation for employees included in our test sample. A detail of the exceptions is noted in the Risk and Mitigation Table. Specifically, the following exceptions were noted during the review:

- Overtime compensation was incorrectly reported.
- Required health enrollment forms were not on file.
- A health contribution payment was not remitted timely.

BACKGROUND

The California Public Employees' Retirement System (CalPERS) provides a variety of programs serving members employed by more than 2,500 local public agencies as well as state agencies and state universities. The agencies contract with CalPERS for retirement benefits, with CalPERS providing actuarial services necessary for the agencies to fund their benefit structure. In addition, CalPERS provides services which facilitate the retirement process.

CalPERS Employer Services Division (ERSD) manages contract coverage for public agencies and receives, processes, and posts payroll information. CalPERS Benefit Services Division (BNSD) provides services for eligible members who apply for service or disability retirement. BNSD sets up retirees' accounts, processes applications, calculates retirement allowances, prepares monthly retirement benefit payment rolls, and makes adjustments to retirement benefits. The Office of Employer and Member Health Services (EMHS), as part of the Health Benefits Branch (HBB), provides eligibility and enrollment services to the members and employers that participate in the CalPERS Health Benefits Program, including state agencies, public agencies, and school districts.

Retirement allowances are computed using three factors: years of service, age at retirement and final compensation. Final compensation is defined as the highest average annual compensation earnable by a member during the last one or three consecutive years of employment, unless the member elects a different period with a higher average. State and school members use the one-year period. Local public agency members' final compensation period is three years unless the agency contracts with CalPERS for a one-year period.

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The employers' knowledge of the laws relating to membership and payroll reporting facilitates the employer in providing CalPERS with appropriate employee information. Appropriately enrolling eligible employees and correctly reporting payroll information is necessary to accurately compute a member's retirement allowance.

The Del Puerto Water District is a California special district formed under the provisions of Division 13 of the Water Code of the State of California. The District was originally organized on March 24, 1947, to contract for and administer delivery of water supplies to landowners within the geographical boundaries of the District. On March 1, 1995, the District was reorganized through a formal consolidation with ten other similarly contracted water districts. A seven person Board of Directors elected from among District landowners governs the District. The District Employee Handbook and District Annual Wage/Salary Chart outline all District employees' salaries and state the terms of employment agreed upon between the District and its employees.

The District contracted with CalPERS effective October 1, 2001, to provide retirement benefits for local miscellaneous employees. The District's current contract amendment identifies the length of the final compensation period as twelve months. The District contracted with CalPERS effective November 1, 2001, to provide health benefits to all eligible employees.

SCOPE

As part of the Board approved plan for fiscal year 2009/2010, we reviewed the District's payroll reporting and enrollment processes as these processes relate to the District's health and retirement contracts with CalPERS. The objective of this review was limited to the determination that the District complied with applicable sections of the California Government Code (Sections 20000 et seq.) and Title 2 of the California Code of Regulations and that prescribed reporting and enrollment procedures were followed. The on-site fieldwork for this review was conducted on May 24, 2010, through May 25, 2010.

The review period was limited to the examination of sampled records and processes from January 1, 2007 through December 31, 2009. To accomplish the review objectives, we performed the following:

- ✓ Reviewed the contract and subsequent amendments the District had with CalPERS, correspondence files maintained at CalPERS, and employment agreements the District had with its employees.

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- ✓ Interviewed key staff members to obtain an understanding of the District's personnel and payroll procedures.
- ✓ Reviewed the payroll transactions and compared the District's payroll register with the data reported to CalPERS to determine whether the District correctly reported employees' compensation.
- ✓ Reviewed the District's payroll information reported to CalPERS to determine whether employees' payrates were reported pursuant to public salary information.
- ✓ Reviewed the District's process for reporting payroll to CalPERS to determine whether the payroll reporting elements were reported correctly.
- ✓ Reviewed reported payroll to determine whether the payment of contributions and the filing of payroll reports were submitted within the required timeframes.
- ✓ Reviewed the District's enrollment practices pertaining to temporary/part-time employees, retired annuitants, and independent contractors to determine whether the individuals met CalPERS membership requirements.
- ✓ Reviewed the District's classification of employees to determine whether the District reported employees in the appropriate coverage groups.
- ✓ Reviewed the District's calculation and reporting of unused sick leave balances for retiring members.
- ✓ Reviewed employees and their dependents to determine whether the District properly enrolled eligible individuals into CalPERS Health Benefits Program.
- ✓ Reviewed health contribution payment information to determine whether the District remitted payments within the required timeframe.
- ✓ Reviewed health contribution payments to determine whether the District contributed the correct employee/employer contribution amounts.
- ✓ Determined whether the District maintained the required user security documents on file and reasonable security procedures were in place for ACES users.

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RISK AND MITIGATION TABLE

In developing our opinions, we considered the following risks and mitigations. We also include our observations and recommendations.

RISK	MITIGATION & OBSERVATION	RECOMMENDATION
1. The District may not accurately report compensation to CalPERS.	<p>We reviewed payroll records and compensation reported to CalPERS for a sample of five employees over two service periods. The service periods reviewed were the first service period of July 2008 (7/08-1) and the second service period of December 2009 (12/09-2).</p> <p>The earnings reported to CalPERS were reconciled to the District's payroll records. The District correctly paid and reported member earnings to CalPERS for three of the sampled employees. However, the District incorrectly reported earnings for two sampled employees. Specifically:</p> <ul style="list-style-type: none">• One employee worked 88.25 hours in service period 7/08-1 and the District reported \$1,148.88 in earnings. The District incorrectly included \$4.88 for 0.25 hours of overtime. The District should have only reported \$1,144.00 in earnings for 88 hours of full time work.• One part time employee worked 61.883 hours in service period 7/08-1 and the District reported \$1,038.64 in earnings. The District incorrectly included premium pay	<p>The District should not report overtime premium pay to CalPERS.</p> <p>The District should work with CalPERS ERSD to assess the impact of this incorrect reporting and determine what adjustments, if any, are needed.</p> <p>A confidential list identifying the employees mentioned in this section of the report has been sent to the District and CalPERS ERSD as an appendix to our draft report.</p>

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RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>1. The District may not accurately report compensation to CalPERS. (continued)</p>	<p>totaling \$6.28 for 0.25 hours worked at an overtime rate. The District should have reported regular earnings of \$1,036.55 for 61.883 (61.633 plus .25) hours at the employee's regular rate of pay.</p> <p>Government Code, § 20635, states, "When the compensation of a member is a factor in any computation to be made under this part, there shall be excluded from those computations any compensation based on overtime put in by a member whose service retirement allowance is a fixed percentage of final compensation for each year of credited service. For the purposes of this part, overtime is the aggregate service performed by an employee as a member for all employers and in all categories of employment in excess of the hours of work considered normal for employees on a full-time basis, and for which monetary compensation is paid."</p>	
<p>2. The District may not report payrates in accordance with publicly available salary schedules.</p>	<p>We reviewed payrates reported to CalPERS in service period 12/09-2 for the five sampled employees. We reconciled the payrates to the District's public salary information to determine whether payrates for the sampled employees were properly authorized and reported to CalPERS. We determined the employees' payrates were properly authorized and reported in accordance with publicly available salary schedules.</p>	<p>None.</p>

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RISK	MITIGATION & OBSERVATION	RECOMMENDATION
3. The District may not accurately report payroll information to CalPERS.	We reviewed the payroll information reported for service periods 7/08-1 and 12/09-2 to determine whether the District correctly reported work schedule codes, pay codes and service period types to CalPERS. Our sample testing revealed that the District correctly reported payroll information to CalPERS.	None.
4. The District may fail to or did not submit payroll in a timely manner to CalPERS.	We reviewed the payroll information for service periods 7/08-1 and 12/09-2 to determine whether the District submitted payroll information within the required timeframes. Payroll information consists of contribution payments and CalPERS summary reports. We found that payroll information and contributions were submitted within the required timeframes.	None.
5. The District may not enroll all eligible employees into CalPERS membership.	<u>Excluded Employees</u> The contract between the Board of Administration of CalPERS and the Board of Directors of the District excludes local safety employees and members of the governing body first elected or appointed prior to July 1, 1994 from CalPERS membership. Our review did not identify any local safety employees working for the District or members of the governing body enrolled into CalPERS membership.	None.

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RISK	MITIGATION & OBSERVATION	RECOMMENDATION
5. The District may not enroll all eligible employees into CalPERS membership. (continued)	<p><u>Temporary/Part-time Employees</u></p> <p>The District employed one part-time employee that was not a CalPERS member during the review period. We reviewed the hours worked by the employee during fiscal years 2007/2008 and 2008/2009 to determine whether the employee met the 1,000 hour membership eligibility requirement, and, if so, was timely enrolled. We determined the employee did not exceed the 1,000 hour membership eligibility requirement and was appropriately excluded from membership.</p> <p><u>Independent Contractor</u></p> <p>We reviewed the District's IRS 1099 Miscellaneous Income forms for calendar years 2008 and 2009 in order to identify employees that may be misclassified as independent contractors. The individuals were properly classified as independent contractors and correctly excluded from CalPERS membership.</p>	<p>None.</p> <p>None.</p>
6. The District may unlawfully employ retired annuitants.	The District did not employ retired annuitants during the review period.	None.

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RISK	MITIGATION & OBSERVATION	RECOMMENDATION
7. The District may not appropriately report members under the proper coverage group code.	Our sample testing revealed that the District reported individuals under the appropriate coverage group code.	None.
8. The District may not accurately report unused sick leave balances for retiring CalPERS members.	Effective July 1, 2005, the contractual provision of Government Code, § 20965, credit for unused sick leave, became a mandated benefit for the District. We did not identify any District employees that retired during the review period.	None.
9. The District may not properly enroll eligible employees and their dependents in health benefits.	<p>We reviewed a sample of five employees to assess the health benefits eligibility and enrollment of members and their dependents. Our sample testing revealed that the District properly enrolled eligible employees and their dependents in CalPERS' Health Benefits Program. However, the required Health Benefits Plan Enrollment (HBD-12) form and the Declaration of Health Coverage (HB-12A) form was not completed for a member that declined health benefits for their spouse.</p> <p>The HB-12A is to ensure compliance with the Health Insurance Portability and Accountability Act (HIPAA) and provides information on enrollment options and consequences for non-enrollment. Beginning January 1, 1998, each employee must sign the HB-12A</p>	<p>The District must ensure the proper member and dependent enrollment documentation is on file at the District within 60 days from the date of our final report. Please send an email to: <i>HBB_Audit_Services@calpers.ca.gov</i> once the requested information is on file. The CalPERS HBB may be contacted at, (916) 795-3836 with any questions.</p> <p>A confidential list identifying the employee mentioned in this</p>

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RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>9. The District may not properly enroll eligible employees and their dependents in health benefits. (continued)</p>	<p>when they are first eligible to enroll or when they make any change to their health coverage. This includes open enrollment changes, changing health plans when moving, adding or deleting a dependent, or canceling health benefits. Employers must provide the HB-12A at the time the employee requests enrollment or with the HBD-12 form and must provide the employee a copy of the signed form, keeping the original in the employee's file.</p> <p>California Code of Regulations, § 599.502 (b)(1), Enrollment, states, "An eligible employee shall enroll or register not to enroll no later than his or her 60th calendar day of employment or reemployment following a break in service of at least one full monthly pay period."</p> <p>California Code of Regulations, § 599.500(h), states, "Register not to enroll means to file with the employing office a properly completed Health Benefits Plan Enrollment Form electing not to be enrolled in a health benefits plan."</p>	<p>report has been sent to the District and CalPERS HBB as an appendix to our draft report.</p>
<p>10. The District may not contribute the appropriate health contribution amounts for active employees.</p>	<p>We reviewed the health contributions reported for December 2009 for five sampled employees. We determined the District contributed the appropriate health contribution amount as part of the sampled employees' total monthly contribution amount.</p>	<p>None.</p>

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RISK	MITIGATION & OBSERVATION	RECOMMENDATION
11. The District may not remit health contributions within the required timeframe.	<p>We reviewed the health contribution payments remitted for January 2009 and December 2009 to determine whether the District remitted the health contribution payments within the appropriate timeframe. Health contribution payments are due no later than the 10th day of the month to CalPERS.</p> <p>District records showed health contribution payments were not submitted timely in one instance. The contribution payment for December 2009 was approximately 11 days late.</p> <p>Government Code § 22899(a), states, "The contributions required of a contracting agency, along with contributions withheld from salaries of its employees, shall be forwarded monthly, no later than the 10th day of the month for which the contribution is due."</p>	The District should develop procedures to ensure health contribution payments are received no later than the 10 th day of each month for the month in which payments are due.
12. The District may not maintain appropriate ACES security procedures.	We reviewed the security procedures for the District's ACES users to determine whether reasonable security precautions were maintained and to determine whether the required security documents were properly completed and filed for ACES users. We found that the ACES user had the appropriate ACES Employer User Security Agreement (AESD-43) form completed and on file at the District.	None.

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CONCLUSION

We limited this review to the areas specified in the scope section of this report. We limited our test of transactions to samples of the District's payroll reports and personnel records. The sample testing procedures provide reasonable, but not absolute, assurance that these transactions complied with the California Government Code, except as noted above.

Respectfully submitted,

Original Signed by Margaret Junker

Margaret Junker, CPA, CIA, CIDA
Chief, Office of Audit Services

Date: December 2010

Staff: Michael Dutil, CIA, Senior Manager
Diana Thomas, CIDA, Manager
Kelly Dotters-Rodriguez
Jose Martinez

APPENDIX

DISTRICT'S WRITTEN RESPONSE



P.O. Box 1596 Patterson, CA 95363-1596

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Margaret Junker, Chief
Office of Audit Services/CalPERS
P.O. Box 942701
Sacramento, CA 94229-2701

Re: Employee Code: 1808
Job Number: P09-065

December 13, 2010

Dear Ms. Junker,

Thank you for the opportunity to review the draft compliance report in relation to the District's contract with CalPERS for health and retirement benefits. We appreciated the opportunity for this first review of our contract, as it provided Staff with valuable feedback on internal procedures as they relate to our processing of CalPERS-related transactions.

Please accept this notice of concurrence on the recommendations made in the report. Thank you again for your time and consideration.

Sincerely,

A handwritten signature in black ink that reads "Anthea G. Hansen". The signature is written in a cursive, flowing style.

Anthea G. Hansen
Assistant Manager/Financial Accountant